

Message Text

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ORIGIN OPIC-12

INFO OCT-01 ARA-16 ISO-00 EB-11 AID-20 COME-00 CIAE-00

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DRAFTED BY OPIC/LA-AFR:JOHN W GURR/BTHOMAS MANSBACH

APPROVED BY EB/IFD/OIA: CNELLIS

EB/IFD/OIA:TBRODERICK

ARA/BR:JSLATTERY

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R 081350Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

UNCLAS STATE 094696

EO 11652: N/A

TAGS: EFIN, BR

SUBJECT: ARVIN INDUSTRIES, INC. (OPIC APPLICATION NO. 512-74-025)

1. EMB FORWARDED TO OPIC IN NOVEMBER 73 A COPY OF CENTRAL BANK CERTIFICATE OF AUTHORIZATION NO. 152/253 DTD 26 OCT 73 PROVIDING FGA FOR SUBJECT APPLICATION. DOES GOB RECOGNIZE THAT ENTERPRISE RECEIVING INVESTMENT IS A HOLDING COMPANY? WOULD APPRECIATE EMB CONFIRMATION AND ADVICE OF SAME TO OPIC.

2. BACKGROUND OF INVESTMENT IS AS FOLLOWS: ARVIN IS INVESTING US \$960,000 FOR 100 PERCENT EQUITY IN ARVIN INDUSTRIA E COMERCIO LTDA, WHICH IS STRICTLY A HOLDING COMPANY. INVESTMENT WILL BE SUB-INVESTED AS FOLLOWS:

(A) \$500,000 TO ACQUIRE NEWLY ISSUED STOCK REPRESENTING 10 PERCENT INTEREST IN AUTO ASBESTOS SA, WHICH WILL THEN BE 90 PERCENT BRAZILIAN OWNED;

(B) US \$450,000 FOR 80 PERCENT EQUITY INTEREST IN ARVIN DO BRAZIL SA, A NEW COMPANY BEING FORMED TO PRODUCE EXHAUST SYSTEMS AND OTHER AUTOMOTIVE PARTS FOR DOMESTIC SALE AND EXPORT.

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(ARVIN INDUSTRIA E COMERCIO WILL RETAIN REMAINING US \$10,000

AS "RESERVE.") AUTO ASBESTOS IS MAKING INVESTMENT OF MACHINERY AND EQUIPMENT APPRAISED AT US \$112,500 IN ARVIN DO BRAZIL FOR 20 PERCENT EQUITY POSITION. ARVIN INDUSTRIES HAS LONG-RANGE PLAN TO MERGE ALL THREE COMPANIES. ARVIN INDUSTRIES HAS LONG-RANGE PLAN TO MERGE ALL THREE COMPANIES. ARVIN IS MEANWHILE PROCEEDING UNDER SUBJECT APPLICATION TO OBTAIN FGA FOR ADDITIONAL US\$2 MILLION DEBT INVESTMENT BY US PARENT IN ARVIN INDUSTRIA E COMERCIO LTDA.

3. OPIC CONCERNED THAT CENTRAL BANK MAY NOT KNOW THAT INVESTMENT COVERED BY CERTIFICATE OF AUTHORIZATION NO. 152/253 IS TO BE MADE IN HOLDING COMPANY. FGA OF 26 OCT 73 INDICATES THAT ACKNOWLEDGED PURPOSE OF APPROVED INVESTMENT IS TO BE "INSTALLATION OF AN INDUSTRIAL PLANT IN COTIA (SP)." AS EMBASSY IS AWARE, CENTRAL BANK HAS HISTORICALLY HAD DIFFICULTY GRANTING FGA'S FOR INVESTMENTS MADE THROUGH HOLDING COMPANIES. NEVERTHELESS, IN SEPTEMBER 1973 MEETING WITH NOBRE, OF FIRCE, MANSBACH AND EINIK WERE ADVISED THAT FGA MIGHT BE GRANTED IN HOLDING COMPANY INVESTMENT SITUATION IF INVESTMENT INVOLVED ONLY EQUITY AND IF A PRECISE PLAN FOR THE FLOW OF FUNDS FROM THE U.S. INVESTOR THROUGH THE HOLDING COMPANY INTO OPERATING COMPANY (IES) COULD BE PRESENTED TO THE CENTRAL BANK IN THE APPLICATION FOR THE FGA. ARVIN CASE APPEARS TO OPIC TO BE IDEAL SITUATION FOR ADVANCING THIS APPROACH. OUR BELIEF IS BASED ON: (A) THE PRECISE PLAN DESCRIBED PARAGRAPH 2 ABOVE; AND (B) THE FACT THAT THE INVESTMENT IS IN AUTOMOTIVE INDUSTRY IN WHICH GOB HAS EXHIBITED EXTENSIVE INTEREST. REQUEST EMBASSY TAKE UP MATTER INFORMALLY WITH NOBRE TO ASCERTAIN WHETHER ARVIN SHOULD BE ADVISED TO PRESENT TO FIRCE REVISED APPLICATION FOR FGA INVOLVING ITS TOTAL INVESTMENT/SUB-INVESTMENT PLANS. IF SO, OPIC WILL ADVISE PARENT COMPANY IN U.S. TO ARRANGE FOR SUBMISSION OF SUCH REVISED APPLICATION, WORKING TOGETHER WITH EMBASSY. (FYI: ARVIN/US DOES NOT HAVE COPY OF APPLICATION TO CENTRAL BANK FOR FGA AND HENCE CANNOT CONFIRM DETAILS OF INVESTMENT AS REPRESENTED TO GOB). END FYI). RUSH

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